



U.S. Department of Housing and Urban Development
Office of Inspector General for Audit
Great Plains District, 7AGA
Gateway Tower II - 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

MEMORANDUM NO:
2002-KC-1802

April 19, 2002

MEMORANDUM FOR: Herman Ransom, Director, Kansas City Multifamily HUB, 7AHM

FROM: *for* Roger E. Niesen, District Inspector General for Audit, 7AGA

SUBJECT: Audit Survey of Golden Oaks Apartments
FHA Number 084-35143
Section 8 HAP No. MO16-0003-022
Kansas City, Missouri

INTRODUCTION

We completed a survey of the Golden Oaks Apartments at the request of the Office of Multifamily Housing Kansas City HUB. The Office of Housing requested the review because they believe the owners were disbursing surplus cash while the project was in need of numerous physical improvements. Our survey objective was to determine whether the financial status and physical condition of Golden Oaks Apartments warranted an audit. We determined that further review at this time is not warranted.

METHODOLOGY AND SCOPE

We reviewed information concerning Golden Oaks Apartments for fiscal years 1998 through 2000. To accomplish our survey objective we performed work in the HUD office between January 18, 2002 and February 29, 2002. To evaluate the financial and physical status of the project, we researched HUD's project files, including the audited financial statements, and conducted interviews with Housing staff and the new management agent. We also obtained the project's March 9, 1978 Regulatory Agreement and the most recent Housing Assistance Payments (HAP) contract contained in the project files (February 1, 2000 through January 31, 2001). We used the Housing Assistance Payments (HAP) contract and Regulatory Agreement as

criteria to determine if the management/owners of Golden Oaks Apartments followed HUD's rules and regulations.

BACKGROUND

Golden Oaks Apartments is a 125 unit project insured by HUD under Section 221(d)(4) of the National Housing Act. Golden Oaks' mortgage was endorsed on March 9, 1978. The Housing Assistance Payments (HAP) contract began August 13, 1977 and expires January 31, 2004. The Housing Assistance Payments contract provides for rental subsidies on behalf of eligible families leasing decent, safe and sanitary units from the owner. The owner and HUD signed the Regulatory Agreement on March 9, 1978. The Regulatory Agreement establishes HUD's requirements for owners to follow when operating insured projects.

RESULTS OF REVIEW

Based on the current conditions at Golden Oaks, we determined that further review at this time is not warranted. The project owners have followed the Office of Housing's directions and taken actions to improve the project. The owners replaced an identity-of-interest management agent with a non-identity of interest management agent on September 10, 2001. On December 5, 2001, the new management agent submitted to the Office of Housing, a Management Improvement Operating plan designed to resolve unsatisfactory physical conditions at Golden Oaks Apartments. The Office of Housing approved the plan on December 31, 2001. The owners have not missed a mortgage payment and have consistently shown a positive surplus cash position. When the Office of Housing requested that Golden Oaks' owners return funds distributed from surplus cash for the year 1999 to the project accounts because the Office of Housing was not satisfied with the project's physical condition, the owners complied and returned \$51,628 in September 2001. Office of Housing officials informed us that as a result of the actions proposed by the new management agent and the positive cash position of the project, they would have no recourse to pursue actions for past regulatory violations.

We commend the Office of Housing staff for their efforts in using HUD's tools to monitor the project. The steps the Office of Housing took to restore surplus cash funds to the project, replace the management agent, and notate HUD's Real Estate Management System to alert HUD staff to unsatisfactory performance by the former management agent have all seemed to help turn the project around.

Please inform us of any future developments regarding this project that might warrant further audit work. Should you or your staff have any questions, please contact me at (913) 551-5870.

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